bakertilly
MUNICIPAL ADVISORS

Financial Planning for Growth

Agenda

- Tax increment financing
- Impact Fees
- Wheel Tax
- Budget Mechanisms

Tax Increment Financing (TIF)

What is TIF?

Tax increment financing (or "TIF") is a tool which captures new assessed value and property taxes from new development in a designated area.

Captures increases in real property taxes and, at times, depreciable personal property taxes

Typically captures commercial and/or industrial property

- Generally, cannot capture increased assessed value resulting from residential property improvements
- Residential properties assessed as commercial (e.g. apartments) is an exception
- Residential TIF tool

What is the purpose of TIF?

- To finance INCENTIVES or INFRASTRUCTURE needed to induce private investment
- To encourage orderly economic growth in targeted areas
- To redevelop blighted areas

Note: New businesses in a TIF Area still pay property taxes on their new private investment. The incremental taxes are captured for projects. The other taxing units forgo the increase in assessed value during the term of the TIF Area

Common uses of TIF in Indiana

Economic development

- Incentives to induce private investment
- Infrastructure development and local improvements
- Encourage growth in a targeted area (e.g. industrial parks)
- Facilitation of additional growth in developing areas (e.g. targeted infrastructure)

Quality of place projects

- Public safety infrastructure, recreational amenities, etc.

Common uses of TIF in Indiana (cont'd)

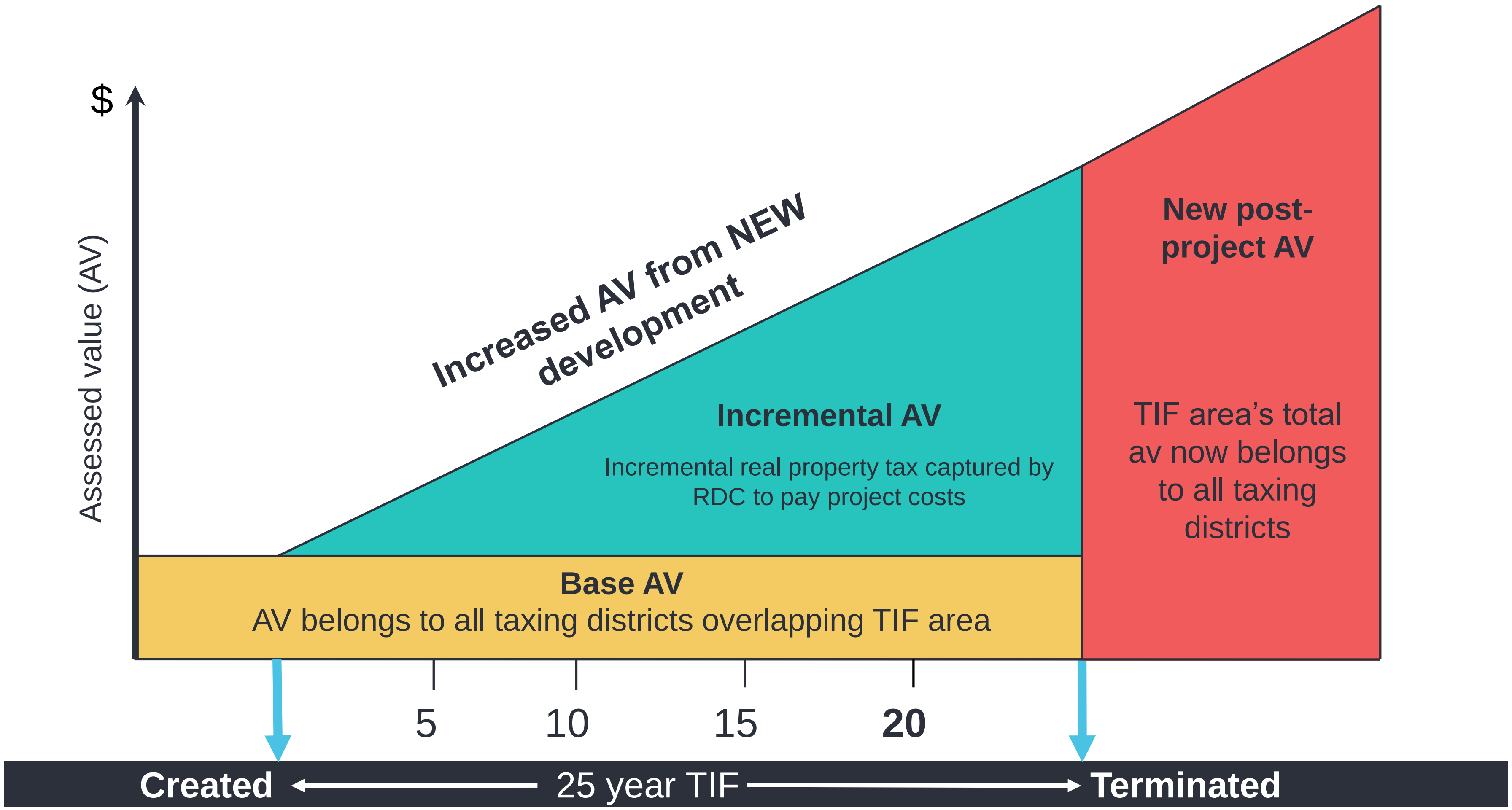
Blight redevelopment

- Rehabilitation of decayed infrastructure
- New infrastructure to support redeveloping areas (e.g. downtown parking)
- Public-private partnerships

Supporting education

- Capital projects
- Educational programs

The mechanics of TIF



The TIF calculation

- An “allocation area” is established and the base date is the prior January 1
- Existing (base) assessed value cannot be captured – the establishment of a TIF allocation area ***does not*** remove existing net assessed value from the tax base
- INCREASES in assessed value over the base value become incremental assessed value

Current NAV – base NAV = incremental AV

Incremental AV x tax rate = TIF

Note: Referendum tax rates, Fire District tax rates, and tax rates associated with Fire Territories established after 2022 ***are not*** included in the calculation of tax increment

The term of an allocation area

Date allocation area established	Expiration date
TIF area is established ***before*** July 1, 1995.	TIF expires the later of 2025 or following the final maturity of obligations outstanding as of July 1, 2015.
TIF area is established ***between*** July 1, 1995 and July 1, 2008.	TIF expires 30 years after the adoption of the declaratory resolution.
TIF area is established ***after*** July 1, 2008.	TIF expires 25 years after the date the first obligation payable from Area TIF was incurred.
Residential TIF	TIF expires 20 years after the date the first obligation payable from Area TIF was incurred

Impact of TIF – Does it take away funds from other taxing units?

- If the increased assessed value from NEW developments would **not** occur **"BUT FOR"** the TIF incentives, then, it **CANNOT** be **"LOST"** to the other taxing units
- TIF ***postpones*** adding new assessed value to the tax base, which postpones the reduction in tax rates for funds with controlled levies and postpones increased revenues from funds with controlled rates
- After TIF ends (or if there is AV pass-through), the increased assessed value is added to the tax base of all the taxing units

Methods of accelerating the benefit to overlapping taxing units

- Only capture a portion of the eligible assessed value
  - Example: Capture 90% of the incremental assessed value and pass through 10% to overlapping taxing units
- Pass-through excess incremental assessed value
- Keep the term of TIF-supported bonds short, or pay them off early
  - Build up sufficient funds over time to pay off bonds early
  - Refinance TIF bonds with shorter terms if revenues allow
- Fund projects for other units
  - TIF may be used to fund capital projects of other units if a nexus to the allocation area and the support of development can be established

TIF and bonds

Bonds and leases may be paid from:

- TIF only
- TIF and other revenues to add security or to fill in gaps during early years
  - LIT revenues
  - Utility revenues
  - F & B taxes and other special taxes
  - Project revenues, i.e. parking fees
  - CRED or CTP revenues
  - Special benefits tax (property tax) levy

Types of TIF bonds

- Tax increment revenue bonds
- Economic development revenue bonds
- Special taxing district bonds
- Lease bonds

TIF may be pledged to other financial instruments

- Bond anticipation notes (bans)
- Capital leases
- Installment purchase agreements

Can TIF bonds be issued when property taxes have been abated?

Yes. But, tax abatement reduces the level of tax increment revenues available for the repayment of the bonds, reducing the amount that can be borrowed. *Abatements applied in TIF areas should be evaluated in the context of impacts on revenue generation and outstanding obligations.*

Residential TIF

- IC 36-7-14-53 adopted in 2019, amended in 2020, 2021, and 2023
- Allows for the establishment of a TIF area that captures new residential development that otherwise would not qualify for capture
- Similar mechanics to commercial/industrial TIF areas
- To qualify ***(not applicable 7/1/2023 through 7/1/2027)***:
  - Average housing growth for prior three calendar years must be less than 1% of the total number of homes in the township (counties) or city/town; or
  - Area is designated as an "economic development target area"
  - Affected school corporation(s) must adopt resolution approving residential TIF
- Additional public meetings requirements

IFA Residential Infrastructure Fund

- Established under HEA 1005-2023
- State revolving fund loan program administered by the Indiana Finance Authority
- May provide funds for public infrastructure required to serve residential housing developments
- Both single- and multi-family developments will be eligible
- The IFA has released guidelines, and applications opened January 1, 2024 with a submission deadline of April 1, 2024
- Funding will occur in June/July 2024

IFA Residential Infrastructure Fund (cont'd)

- The purpose of the Fund is to provide financial assistance to participants to finance infrastructure for the support of residential housing in communities
- Administered by the Indiana Finance Authority
- **Residential Housing**: Single family or multifamily housing for rent or sale
  - Includes condominiums and townhouses located in an economic development target area under IC 6-1.1-12.1-7

Cross-unit Collaboration With TIF

Using TIF to support schools

TIF revenues may be used to support schools or educational programs

- Up to 15% of TIF revenues may be used to fund certain educational programs that enhance workforce skills
- TIF may be used to support education-focused capital projects

Examples of Indiana TIF – Education partnership

Town of Plainfield
Utilizing TIF to fund transportation center bonds

Whitley County
County RDC contributed $7.5 million to WCSC to fund school building improvements

City of Ligonier
$2.5 million TIF contribution to childcare center to be constructed on West Noble Schools property

City of Lebanon
Used TIF to fund a multi-use training room at Lebanon High School

Examples of Indiana TIF – Education partnership (cont'd)

City of Valparaiso

Allocates $600,000 of tax increment annually to schools

City of Greencastle

Constructed Maker Spaces at Greencastle Middle and High Schools for $197,500 and $195,000, respectively

City of Fort Wayne

Public-Private Electric Works redevelopment project includes FWCS Amp Lab

City of Jeffersonville

Allocates 10% of tax increment from the Inner City Road Expansion Areas to GCCS

Examples of TIF uses to benefit other taxing units

City of South Bend

Contributed $4.225 million TIF Bond funding to Community Education Center in partnership with St. Joseph County Public Library

Delaware County

Utilized TIF bonds to fund the construction of a new Town Hall/Police Station and Park for the Town of Daleville

Gibson County

Pledged $4.7 million to the Fort Branch-Haubstadt Public Library expansion project

Impact Fees

Impact Fees

- Authorized under IC 36-7-4-1300 through IC 36-7-4-1342
- May be imposed on new development to fund capital improvements required increase capacity of the following infrastructure types in response to the need generated by that new development:
  - Sanitary sewer/wastewater
  - Parks and recreation
  - Road/bridge
  - Drainage/flood control
  - Water treatment, storage, or distribution
- ***May not*** be used for operations or maintenance expenses

Impact Fees (cont'd)

- Fee collected at permitting
- May be imposed over the unit's planning/zoning jurisdiction
- Implementation requires preparation of a Zone Improvement Plan (ZIP), which establishes the nexus between new development and increased infrastructure needs
  - Impact fee money may not be used to increase level of service provided to current residents/users – current deficits must be met first, using other financial means
- Parks and recreation fees charged per residential unit
- Road/bridge fees charged based upon trip generation by development type

Municipal Wheel Tax & Excise Surtax

Municipal Wheel Tax and Excise Surtax

- Qualifications :
  - Must have a population of at least 5,000
  - Must use a Transportation Asset Management Plan approved by INDOT
  - Must adopt the Wheel Tax and Excise Surtax concurrently

Vehicles subject to wheel tax

- Buses
- Recreational Vehicles
- Semi trailers
- Tractors (more than 11K lbs.)
- Trailers (more than 9K lbs.)
- Trucks (more than 11K lbs.)

Exempt Vehicles

- Vehicles owned by the state or state agency
- Vehicles owned by a political subdivision
- Vehicles subject to excise surtax (passenger vehicles, motorcycles, light trucks)
- Buses owned by a religious or nonprofit youth organization & used to transport persons to religious services

Municipal Wheel Tax

The wheel tax may be imposed at a rate not less than **$5** and not more than **$40**

Different rates may be imposed for different classes of vehicles

Different rates may be established within classes of vehicles, based on the weight classifications established by the BMV for each type of vehicle

Vehicles subject to excise surtax

- Passenger Vehicles
- Motorcycles
- Trucks with a declared gross weight of 11,000 lbs. or less

Excise Surtax

- The surtax may be imposed at a specific amount of at least **$7.50** and not more than **$25**
- The adopting body must state the surtax rate or amount in the ordinance which imposes the tax
- The adopting body may impose the surtax:
  - At the same amount on each motor vehicle; or
  - At one (1) or more different amounts based on vehicle class

Municipal Wheel Tax and Excise Surtax

Adoption	Effective
January 1 – August 31	Year following adoption
September 1 – December 31	Second year following adoption

- The tax may be rescinded by the Fiscal Body January 2 – August 31 (effective in the year following rescission)
  - Both the wheel tax and license excise surtax must be rescinded concurrently
- Ordinances to impose, rescind, or change the taxes must be sent to the Commissioner of the BMV and the Indiana Dept. of Revenue

Revenue collection and use

The BMV will remit the revenue collected to the fiscal officer of the adopting body on or before the 10th day of the month following collection

The revenues must be deposited in a "Municipal Wheel Tax Fund" which may be used for the following purposes:

- To construct, reconstruct, repair, or maintain streets and roads under the adopting municipality's jurisdiction; or
- For the municipality's contribution to obtain a grant from the Local Road and Bridge Matching Fund

Excess Levy Appeals

What is an excess levy appeal?

Request to increase the maximum property tax levy limitation

Can be a permanent or temporary (1-year) increase depending on the type of appeal requested

Types of Levy Appeals

Annexation, Consolidation, Extension of Services	Need additional levy to cover operating costs of new service area
Shortfall of Property Taxes	A.V. errors and taxpayer refunds
Correction of Error	Mathematical/advertising errors
Three-Year Growth Appeal	Average A.V. growth over 3 years exceeds statewide growth factor by 2%
Emergency Appeal (natural disaster)	Inadequate funds to carry out governmental functions due to a natural disaster, an accident, or other unanticipated emergency

Municipalities with significant growth in NAV and population (IC 6-1.1-18.5-25)

- May use levy growth quotient up to 6% if the following are met:
  - Percentage growth in NAV for the preceding year compared to year before is at least 2 times the MLGQ; and
  - Population increased by at least 150% between the last 2 decennial censuses
  - Levy growth that results from either annexation or the pass through of TIF NAV may not be included for the purposes of determining levy growth for this appeal

Township fire (IC 6-1.1-18-28), fire districts (IC 6-1.1-18-29), and fire territories (IC 6-1.1-18-29.5)

Levy increase based on population growth (6% or more) over the last 10 years

Deadline to file: **March 31**

Levy Appeal Process

- Determine eligibility
- Prepare appeal documents
- Include appeal in the budget process (levy and Form 3)
- Submit appeal petition, application, and supporting documentation to the DLGF:
  - On or before October 19 for all appeals except shortfall
  - On or before December 30 for shortfall appeals
- DLGF Commissioner reviews appeal and issues final determination

Three-Year Growth Appeal

- To qualify, unit's 3-yr. average NAV growth must exceed the statewide average by at least 2% (the statewide average in 2023 was 8.05%)
- Permanent increase in levy is equal to unit's 3-yr. average growth minus MLGQ (statewide levy growth factor) applied to current max levy (before MLGQ is applied)

Annexation Appeal

Increase to max levy to cover costs of providing services to a newly annexed area

Units are entitled to an automatic increase in levy of up to 15% (for annexation)

If annexation increases NAV by more than 15%, unit potentially qualifies for an appeal in addition to the automatic 15% increase

Deadline to file an appeal is Oct. 19th (must be included in Gateway budget)

Matt Eckerle

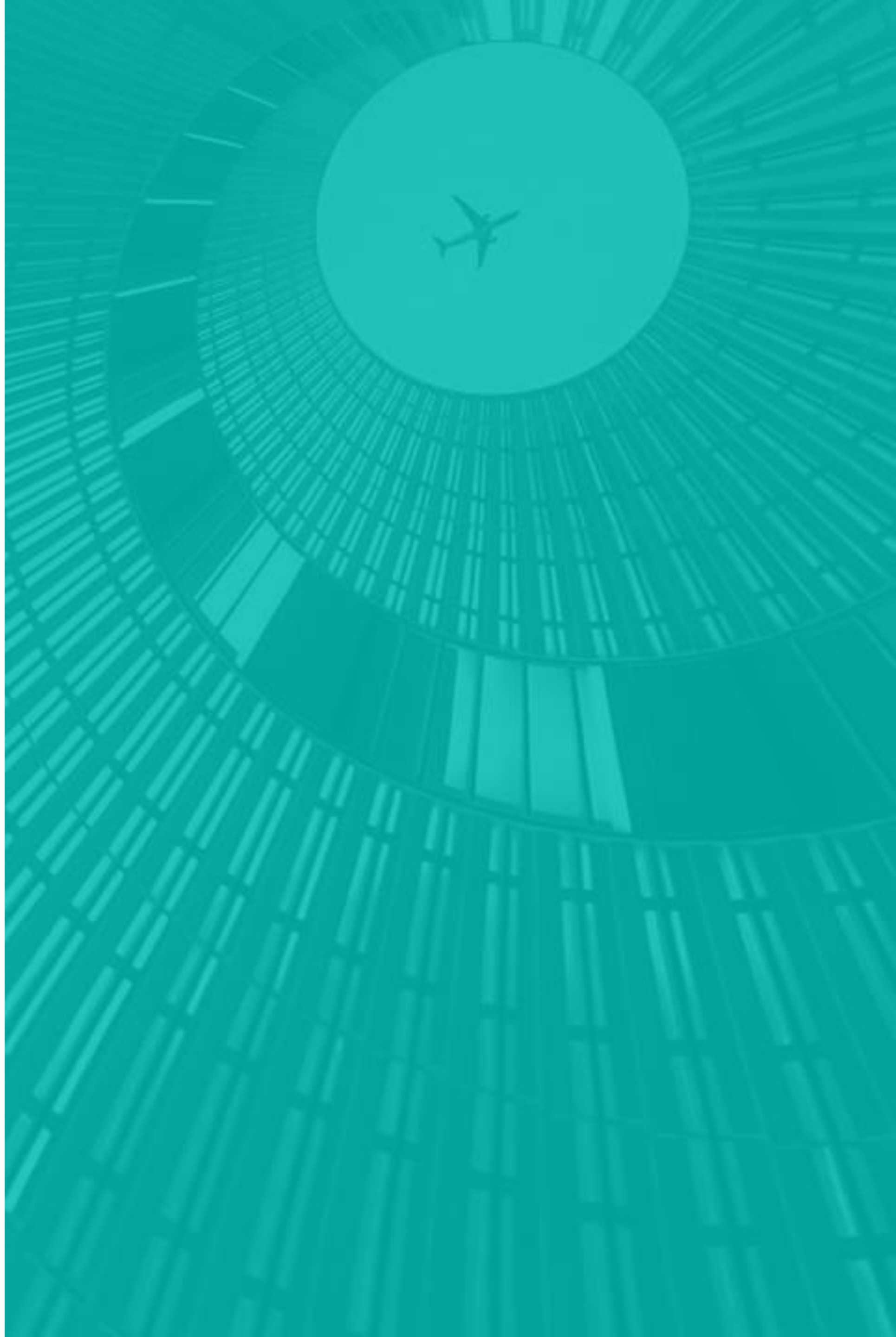
Principal

E: matt.eckerle@bakertilly.com
P: +1 (317) 465 1520

Paige Sansone

Partner

E: paige.sansone@bakertilly.com
P: +1 (317) 465 1521



bakertilly
MUNICIPAL ADVISORS